

## Message Text

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PAGE 01 STATE 034699

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FM SECSTATE WASHDC

TO AMEMBASSY TOKYO PRIORITY

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E.O. 11652: N/A

TAGS:ECON, EGEN, JA

SUBJECT: SPEECH MATERIAL FOR AMBASSADOR HODGSON

REF: TOKYO 1320

FOR AMBASSADOR FROM KATZ.

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SUMMARY: THIS TELEGRAM PROVIDES INFORMATION REQUESTED FOR  
SPEECH ON EAST ASIA BY AMBASSADOR HODGSON. A SUMMARY OF  
THE CONTENTS FOLLOWS.

EAST ASIA CONTINUES TO BE AN AREA OF KEY ECONOMIC IMPOR-  
TANCE TO US IN TERMS OF TRADE INVESTMENT AND A SOURCE OF  
RAW MATERIALS. REGION IS BECOMING INCREASINGLY INTEGRATED  
ECONOMICALLY WHICH HAS CREATED SOME ADJUSTMENT PROBLEMS.  
BASIC US POLICY IS TO MAINTAIN STRONG ECONOMIC PRESENCE IN  
REGION AND ASSIST THESE COUNTRIES IN PRESERVING POLITICAL  
AND ECONOMIC STABILITY. OUTLOOK FOR EA IS FOR CONTINUED  
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PAGE 02 STATE 034699

EXPANSION BUT AT A SLOWER PACE THAN HERETOFORE. TRADE AND

INVESTMENT OPPORTUNITIES WILL CONTINUE TO BECOME AVAILABLE  
TO INTERESTED US FIRMS. END SUMMARY.

1. I HAVE DRAWN TOGETHER HERE SOME MATERIAL FROM MY OWN  
BRIEFING NOTES FOR EA COM CONFERENCE, FROM TALKING POINTS  
USED BY PHIL HABIB, AND FROM OTHER STUDIES (PARTICULARLY  
OER'S "THE PACIFIC BASIN: RE-EXAMINING ECONOMIC TRENDS."  
BODY OF MATERIAL WHICH FOLLOWS AS WELL AS ACCOMPANYING  
STATISTICS ARE UNCLASSIFIED. I HOPE THEY WILL HELP YOU IN  
PUTTING TOGETHER YOUR LOS ANGELES SPEECH. END LIMITED  
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2. I. PACIFIC BASIN TRENDS.

(A) GROWTH SPURRED BY US, JAPAN.

US, JAPANESE ECONOMIES HAVE EXERTED STRONG POSITIVE FORCE  
ON EACH OTHER AND ON ECONOMIES OF OTHER NATIONS OF PACIFIC  
BASIN (DEFINED TO INCLUDE ALL COUNTRIES BORDERING ON  
PACIFIC OCEAN, OCEANIA, AND SOUTH PACIFIC ISLANDS EXCLUDING  
LATIN AMERICA. US IS FASTEST GROWING MARKET FOR JAPAN,  
HONG KONG, TAIWAN, AND ROK. JAPAN IS LARGEST MARKET FOR  
RAW MATERIALS FROM AUSTRALIA, INDONESIA. US IS ALSO  
JAPAN'S LEADING SUPPLIER OF BOTH RAW MATERIALS AND SOPHIS-  
TICATED MANUFACTURES. US AND JAPAN ARE MAIN SOURCES OF  
MANUFACTURES FOR OTHER BASIN COUNTRIES.

(B) INCREASING ECONOMIC INTEGRATION AND INTERDEPEN-  
DENCE. INTRA-REGIONAL TRADE HAS RISEN 30 PER CENT SINCE  
1970, REACHING 93 BILLION DOLS IN 1974. IT NOW ACCOUNTS  
FOR 43 PER CENT OF BASIN'S TOTAL TRADE VS. 40 PER CENT IN  
1970. US, JAPAN TRADE ACCOUNT FOR HALF OF TOTAL. INTRA-  
REGIONAL FINANCIAL FLOWS HAVE INCREASED RAPIDLY IN RECENT  
YEARS. JAPAN DIRECTS 60 PER CENT OF ITS FOREIGN AID TO  
BASIN COUNTRIES. ESTIMATED US DIRECT INVESTMENT TOTALED  
12 BILLION DOLS IN 1974, UP FROM 7 BILLION DOLS IN 1970.  
JAPANESE EQUITY INVESTMENT HAS RISEN FROM 500 MILLION DOLS  
IN 1970 TO 4 BILLION DOLS IN 1974.

(C) INTERDEPENDENCE HAS INTENSIFIED RECENT SLUMP.  
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PAGE 03 STATE 034699

ECONOMIC DOWNTURN IN US, JAPAN HAS SENT WAVES TO MANY  
PACIFIC BASIN COUNTRIES AFFLICTING THEM WITH FALLING GROWTH  
RATES, INFLATION. ROK, FOR EXAMPLE, HAS SUFFERED 30  
PER CENT DROP IN EXPORTS IN PAST 12 MONTHS. MANY NATIONS  
IN BASIN ARE NOW SEEKING TO COPE WITH THIS SITUATION BY  
DIVERSIFYING FOREIGN ECONOMIC RELATIONS THROUGH GAINING  
ACCESS TO COMMON MARKET, DEVELOPING NON RAW-MATERIAL  
EXPORTS OR ADOPTING RESTRICTIVE MEASURES. SLOWER RECOVERY

FROM RECESSION THAN ANTICIPATED IN INDUSTRIAL NATIONS, PARTICULARLY JAPAN, IS PRINCIPAL CAUSE FOR CONTINUED SLOW GROWTH THROUGHOUT BASIN.

(D) OUTLOOK.

BASIC ECONOMIC PATTERNS ALREADY EMERGING ARE UNLIKELY TO CHANGE MUCH. TRADE WILL CONTINUE TO EXPAND ALTHOUGH NOT AT RAPID PACE OF RECENT YEARS, ESPECIALLY IN VIEW OF SLOWER JAPANESE GROWTH. FINANCIAL FLOWS WILL ASSUME GROWING ROLE IN FOSTERING INTERDEPENDENCE. MANY COUNTRIES WILL UPGRADE INDUSTRIAL STRUCTURES, SEEKING CAPITAL FROM US AND JAPAN. CHINA IS UNLIKELY TO HAVE A SIGNIFICANT IMPACT ON REGIONS ECONOMIC PATTERNS IN YEARS IMMEDIATELY AHEAD. IT IS LIKELY THAT PACIFIC BASIN WILL REMAIN DYNAMIC AND CRITICALLY IMPORTANT TRADING AREA FOR US. REGION WILL CONTINUE TO PROVIDE SUBSTANTIAL OPPORTUNITIES FOR TRADE AND INVESTMENT.

II. IMPORTANCE TO U.S.

(A) US EXPORTS.

US SALES TO PACIFIC BASIN GREW 25 PER CENT ANNUALLY BETWEEN 1970-74, A FASTER PACE THAN TOTAL US EXPORT GROWTH IN THAT PERIOD. SINCE 1972, TOTAL US TRADE WITH BASIN HAS EXCEEDED THAT WITH EUROPEAN COMMON MARKET, WITH TWO-WAY TRADE REACHING 45.5 BILLION DOLS IN 1974. EAST ASIA IS MOST IMPORTANT MARKET FOR US AGRICULTURAL PRODUCTS WHICH AMOUNT TO ABOUT 25 PERCENT OF TOTAL US SALES.

(B) US IMPORTS.

US IS CRUCIAL OUTLET FOR GOODS OF PACIFIC BASIN COUNTRIES, WITH TOTAL IMPORTS IN 1974 AMOUNTING TO 24 BILLION DOLS (JAPAN ACCOUNTING FOR HALF OF THIS). US PURCHASES FROM TAIWAN, ROK, HK, SINGAPORE ALONE TOTALED 6 BILLION DOLS IN LIMITED OFFICIAL USE

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PAGE 04 STATE 034699

1974, EQUIVALENT TO ONE-THIRD OF US PURCHASES FROM EC. PACIFIC BASIN SUPPLIES 99 PERCENT OF US COCONUT OIL, ALMOST ALL RUBBER, TIN, AND WOOL. IT PROVIDES 8 PER CENT OF PETROLEUM AND IS A RELIABLE SUPPLIER.

(C) US INVESTMENT.

TOTAL ESTIMATED AT 12 BILLION DOLS IN 1974, AN ANNUAL GROWTH RATE OF 1 BILLION DOLS SINCE 1970. US INVESTMENT IN AUSTRALIA ALONE ACCOUNTS FOR ONE-HALF OF TOTAL, MAKING AUSTRALIA FOURTH LARGEST RECIPIENT OF US CAPITAL. US ALSO HAS LARGE INVESTMENTS IN EXTRACTIVE INDUSTRIES IN INDONESIA AND SOUTH PACIFIC AS WELL AS IN MANUFACTURING SECTORS IN ROK, TAIWAN, AND HONG KONG. ALTHOUGH INVESTMENT FLOWS HAVE SLOWED BECAUSE OF RECESSION, REGION REMAINS RECEPTIVE TO US CAPITAL.

III. US POLICY.

(A) BASIC POLICY.

MAINTAIN STRONG ECONOMIC PRESENCE IN REGION AND ASSIST COUNTRIES THERE IN PRESERVING POLITICAL AND ECONOMIC STABILITY.

- (B) ELEMENTS OF US POLICY.

- 1. BILATERAL ECONOMIC ASSISTANCE TO COMPLEMENT SELF-HELP EFFORTS (FY-76 87.5 MILLION DOLS PLUS 202 MILLION DOLS IN PL-480).
- 2. SUPPORT MULTILATERAL FINANCIAL INSTITUTIONS SUCH AS IBRD AND ADB.
- 3. SUPPORT CONTINUED HIGH LEVELS OF EXPORT-IMPORT BANK ACTIVITY TO ASSIST DEVELOPMENT AND TO ENABLE US BUSINESS TO COMPETE FOR AN INCREASING SHARE OF EA MARKETS.
- 4. FOSTER FAVORABLE CLIMATE FOR PRIVATE US INVESTMENT AND ENCOURAGE OPIC TO MAINTAIN HIGH LEVEL OF INTEREST IN PACIFIC BASIN.
- 5. CONTINUE (WITH COMMERCE) TO ASSIST AMERICAN BUSINESS IN REGION AND MAINTAIN VIGOROUS TRADE PROMOTION EFFORT, MAKING THIS A HIGH PRIORITY ACTIVITY OF OUR POSTS ABROAD.
- 6. CONTINUE TO COORDINATE EA POLICIES WITHIN WORLDWIDE POLICY FRAMEWORK WITH PARTICULAR REGARD TO: PLANS TO STABILIZE EXPORTS EARNINGS; PLANS TO LIMITED OFFICIAL USE

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PAGE 05 STATE 034699

- IMPROVE LDC ACCESS TO CAPITAL MARKETS; AND PLANS TO ASSIST LDC EXPORT EXPANSION THROUGH GSP AND MTN.
- 

- IV. STATISTICAL SUMMARY.

- (A) US TRADE WITH EA, EC (BILLIONS OF DOLS)

-- YEAR EA EC TOTAL EA PERCENT EC PERCENT

-- 1974 45.5 41.3 199.5 22.9 20.7

-- 1970 18.7 20.5 83.2 22.5 24.6

- (B) US AGRICULTURAL EXPORTS TO EA

- (BILLIONS OF DOLS)

- YEAR EA PERCENT OF  
- TOTAL

- 1974 4.7 25.8

- 1971 1.4 23.7

- (C) US INVESTMENT IN EA

-- (AS PER CENT OF WORLD WIDE)

-- YEAR PER CENT

-- 1950 4.5

-- 1957 6.0

-- 1966 7.4

-- 1972 11.8

-- 1973 10.3

-- 1974 10.6

- V. SIGNIFICANT ITEMS.

- (A) SINCE 1972 US TRADE WITH EA EXCEEDED THAT OF  
- EUROPEAN ECONOMIC COMMUNITY.

- (B) EA IS MOST IMPORTANT MARKET FOR US AGRICULTURAL  
-- PRODUCTS.

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PAGE 06 STATE 034699

- (C) US INVESTMENT IN EA NOW HAS ESTIMATED BOOK VALUE  
-- OF OVER 12 BILLION DOLS; HAS GROWN BY OVER 1  
-- BILLION DOLS ANNUALLY SINCE 1970.

- (D) EA IS AN IMPORTANT AND STABLE SUPPLIER OF RAW  
-- MATERIALS, NEARLY ALL OF OUR NATURAL RUBBER, TIN,  
-- COCONUT OIL, AND ABOUT 8 PER CENT OF OUR PETROLEUM.

3. ADDITIONALLY, YOU MIGHT DRAW UPON LATEST ISSUE OF  
"COMMERCE AMERICA: WORLD TRADE OUTLOOK" 2/2/76 FOR MORE  
DETAILED COMMERCIAL DATA ON INDIVIDUAL COUNTRIES. A  
COPY WAS MAILED TO YOU ON FEBRUARY 6 VIA APO. BEST  
REGARDS, JULIUS L. KATZ. INGERSOLL

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